

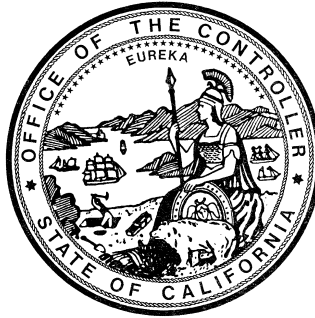
# **LOS ANGELES UNIFIED SCHOOL DISTRICT**

Audit Report

## **GRADUATION REQUIREMENTS PROGRAM**

Chapter 498, Statutes of 1983

*July 1, 1999, through June 30, 2001*



**STEVE WESTLY**  
California State Controller

October 2004



**STEVE WESTLY**  
**California State Controller**

October 22, 2004

Roy Romer, Superintendent  
Los Angeles Unified School District  
333 South Beaudry Avenue, 24<sup>th</sup> Floor  
Los Angeles, CA 90017

Dear Mr. Romer:

The State Controller's Office audited the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2001.

The district claimed \$5,760,711 for the mandated program. Our audit disclosed that none of the claimed costs is allowable because the district's claims exceeded its increased costs for staffing and supplying the new science classes mandated by legislation. The district was paid \$1,479,636. The total amount paid should be returned to the State.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (COSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at [www.csm.ca.gov](http://www.csm.ca.gov) (Guidebook link), and obtain IRC forms by telephone at (916) 323-3562 or by e-mail at [csminfo@csm.ca.gov](mailto:csminfo@csm.ca.gov).

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

*Original Signed By:*

VINCENT P. BROWN  
Chief Operating Officer

VPB:JVB/ams

cc: (See page 2)

cc: Kenneth C. Gotsch  
Chief Financial Officer  
Los Angeles Unified School District  
Richard Knott, Controller  
Los Angeles Unified School District  
Darline P. Robles, Ph.D.  
County Superintendent of Schools  
Los Angeles County Office of Education  
Scott Hannan, Director  
School Fiscal Services Division  
California Department of Education  
Arlene Matsuura, Educational Consultant  
School Fiscal Services Division  
California Department of Education  
Jeannie Oropeza, Program Budget Manager  
Education Systems Unit  
Department of Finance  
Charles Pillsbury  
School Apportionment Specialist  
Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the claims filed by the Los Angeles Unified School District for costs of the legislatively mandated Graduation Requirements Program (Chapter 498, Statutes of 1983) for the period of July 1, 1999, through June 30, 2001. The last day of fieldwork was December 16, 2003.

The district claimed \$5,760,711 for the mandated program. The audit disclosed that none of the claimed costs is allowable because the district's claims exceeded its increased costs for staffing and supplying the new science classes mandated by legislation. The district was paid \$1,479,636. The total amount paid should be returned to the State.

## Background

*Education Code* Section 51225.3 (added by Chapter 498, Statutes of 1983) requires that beginning with the 1986-87 school year, no pupil shall receive a high school diploma without completing an additional science course above that which was previously required. The legislation was effective in fiscal year (FY) 1983-84; however, a district had up to three years to implement this requirement. Prior to enactment of Chapter 498, Statutes of 1983, one year of science was required. As a result of this enactment, two science courses, one each of biological and physical sciences, are now required.

On November 20, 1986, the Commission on State Mandates (COSM) determined that Chapter 498, Statutes of 1983, imposed a state mandate reimbursable under *Government Code* Section 17561.

*Parameters and Guidelines* establishes the state mandate and defines reimbursement criteria. COSM adopted the *Parameters and Guidelines* on March 23, 1988, and last amended it on January 24, 1991. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandated programs, to assist school districts in claiming reimbursable costs.

## Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Graduation Requirements Program for the period of July 1, 1999, through June 30, 2001.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, not funded by another source, and not unreasonable and/or excessive.

We conducted the audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority of *Government Code* Section 17558.5. We did not audit the district's financial statements. Our scope was limited to planning and performing audit procedures necessary to obtain reasonable assurance that costs claimed were allowable for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the costs claimed were supported.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

The audit disclosed instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, the Los Angeles Unified School District claimed \$5,760,711 for costs of the Graduation Requirements Program. Our audit disclosed that none of the claimed costs is allowable.

For FY 1999-2000, the district was paid \$165,763 by the State. Our audit disclosed that none of the costs is allowable; therefore, the entire amount paid should be returned to the State.

For FY 2000-01, the district was paid \$1,313,873 by the State. Our audit disclosed that none of the costs is allowable; therefore, the entire amount paid should be returned to the State.

## **Views of Responsible Officials**

We issued a draft report on February 26, 2004. Kenneth C. Gotsch, Chief Financial Officer, responded by letter dated April 30, 2004, disagreeing with the audit results. The final audit report includes the district's response as the Attachment.

## **Restricted Use**

This report is solely for the information and use of the Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original Signed By:*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

# Schedule 1— Summary of Program Costs July 1, 1999, through June 30, 2001

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>	<u>Audit Adjustments</u>	<u>Reference <sup>1</sup></u>
<u>July 1, 1999, through June 30, 2000</u>				
Salaries and benefits	\$ 1,705,098	\$ —	\$(1,705,098)	Finding 1
Materials and supplies	<u>2,537,663</u>	<u>—</u>	<u>(2,537,663)</u>	Finding 2
Subtotals	4,242,761	—	(4,242,761)	
Indirect costs	<u>204,077</u>	<u>—</u>	<u>(204,077)</u>	Findings 1, 2
Total costs <sup>2</sup>	<u>\$ 4,446,838</u>	<u>—</u>	<u>\$(4,446,838)</u>	
Less amount paid by the State		<u>(165,763)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (165,763)</u>		
<u>July 1, 2000, through June 30, 2001</u>				
Salaries and benefits	\$ —	\$ —	\$ —	
Materials and supplies	<u>1,260,673</u>	<u>—</u>	<u>(1,260,673)</u>	Finding 2
Subtotals	1,260,673	—	(1,260,673)	
Indirect costs	<u>53,200</u>	<u>—</u>	<u>(53,200)</u>	Findings 1, 2
Total costs <sup>2</sup>	<u>\$ 1,313,873</u>	<u>—</u>	<u>\$(1,313,873)</u>	
Less amount paid by the State		<u>(1,313,873)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,313,873)</u>		
<u>Summary: July 1, 1999, through June 30, 2001</u>				
Salaries and benefits	\$ 1,705,098	\$ —	\$(1,705,098)	
Materials and supplies	<u>3,798,336</u>	<u>—</u>	<u>(3,798,336)</u>	
Subtotals	5,503,434	—	(5,503,434)	
Indirect costs	<u>257,277</u>	<u>—</u>	<u>(257,277)</u>	
Total costs <sup>2</sup>	<u>\$ 5,760,711</u>	<u>—</u>	<u>\$(5,760,711)</u>	
Less amount paid by the State		<u>(1,479,636)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$(1,479,636)</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> Net of offsetting reimbursements and savings.

# Findings and Recommendations

## **FINDING 1— Unallowable salaries, benefits, and related indirect costs**

The district did not provide documentation substantiating the allowability of claimed salary and benefit costs totaling \$1,705,098 for FY 1999-2000. The district's calculation did not measure the costs incurred for teaching the one additional high school biological or physical science class in FY 1999-2000 required by the mandate. The related indirect cost is \$82,015. The district did not claim any salary and benefit costs for FY 2000-01.

*Parameters and Guidelines* requires that, beginning with the 1986-87 school year, no pupil is to receive a high school diploma without completing an additional science course above that which was required prior to enactment of Chapter 498, Statutes of 1983. The legislation was effective in FY 1983-84; however, a district had up to three years to implement this requirement. Previously, one year of science was required. As a result of this mandate, two science courses, one each of biological and physical sciences, are now required. The cost incurred for providing the additional science course, net of savings a district experiences as a direct result (e.g., reductions in non-science classes resulting from the increase in required science classes), is subject to reimbursement under this mandate. Consequently, only the net increased costs of the additional biological or physical science classes taught are reimbursable.

*Parameters and Guidelines* states that reimbursable costs include the increased cost to school districts for staffing and supplying the new science classes mandated. Furthermore, the guidelines state that reimbursement for this mandate received from any source (e.g., federal, state, and block grants) is to be identified and deducted.

For FY 1999-2000, the district claimed high school science teachers' salary and benefit costs by multiplying the salary and benefit differential costs by the total number of full-time equivalent (FTE) teachers teaching biological and life science classes. The differential costs represent the average high school science teacher's salary and benefit costs over the average of all district-wide teachers' salary and benefit costs.

To compute the average high school science teacher's salary and benefit costs, the district inappropriately divided science teachers' total salary and benefit costs of \$26,061,973 by the number of FTE science teachers of 501 to arrive at an average science teacher's salary of \$52,020. The district inadvertently compared that number to the average district-wide teacher salary for Long Beach Unified School District of \$46,267 and determined that there are increased salary differential costs incurred as a result of this mandate. The district added the 11.4% benefit rate to the increased salary differential costs and multiplied that number by the total number of FTE teachers teaching biological and life science classes (265.84) to arrive at claimed costs of \$1,705,098.



To be consistent, the district should have divided science teachers' total salary and benefit costs of \$26,061,973 by the total number of (rather than FTE) science teachers of 601 to arrive at an average science teacher's salary of \$43,364, which is less than the average district-wide teacher salary for Los Angeles Unified School District of \$46,617. Consequently, there are no increased differential costs incurred as a result of this mandate.

### Recommendation

We recommend that the district ensure that it claims only increased costs of salaries and benefits net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

### District's Response

For 1999-2000, the District claimed reimbursement of \$1,705,098. The District did not submit a salaries and benefits claim for 2000-2001. To determine the increased costs for 1999-2000, the District calculated the differential between the average salary and benefits for a science teacher and the average salary and benefits for teachers districtwide. The District then [sic] determined, by analysis of class assignments per school, the FTE teaching mandated science classes. The claim amount is the product of the differential and the FTE figures.

The DAR [draft audit report] contains the following conclusions:

- 1) the formula applied by the District in calculating the increased salaries and benefits was incorrect.
- 2) even with correction to the District's formula, the District failed to establish the increased costs attributable to the mandate imposed by section 51225.3.

The District submits these conclusions are wholly unsupported.

With regard to the District's formula, the numerator of the District's and Controller's formulas are identical. The only potential difference is the denominator. The Controller states the District used "the number of FTE science teachers teaching science classes" as the denominator. The Controller states the denominator should have been "the actual number of science teachers teaching science classes." The DAR, however, does not explain why the District's calculation is incorrect. Further, the DAR does not explain why the District's calculation is not sufficient to provide the Controller with "reasonable assurance" as to the validity of the District's claims.

The DAR then concludes, "the calculation did not measure the costs incurred for teaching the one additional high school biological or physical science class for FY 1999-2000 required by the mandate." However, the support submitted with the District's initial claim includes a calculation of the "Differential x FTE teaching mandated second year of high school science." This calculation is supported with several pages of documentation and is indeed a "measure" of the cost incurred from teaching the additional science class. The Controller makes no attempt to explain or demonstrate how the District's calculation and supporting documentation is incorrect or insufficient. Further, as is required by the Governmental Auditing Standards, the Controller provides no evidence to support its

conclusory finding.

Finally, the DAR states, “The SCO recomputed the salaries and benefits differential based on information provided by the district. The average science teacher salaries and benefits were lower than the district-wide teacher salaries and benefits.” The DAR, however, does not provide any information regarding how the Controller recomputed this figure or the District information upon which that recalculation was based. Assuming *arguendo* that the Controller’s position on such recalculation had some merit, the District would be unable to reconfigure and recompute the salary and benefits differential so as to comply with the auditors’ methodology because the necessary information to permit same is entirely lacking.

#### SCO’s Comment

The fiscal effect of the finding remains unchanged. The district did not support that the teaching of the one additional high school biological or physical science class required by the mandate for FY 1999-2000 resulted in increased salary and benefit costs.

To provide greater clarity, the finding has been updated to show the calculation supporting the unallowable costs. In addition, the phrase stating, “The mandate requires a district to provide the additional science course in lieu of a non-science course” has been deleted.

The auditors’ calculation supporting that there are no increased differential salary and benefit costs was presented to and discussed with district representatives during the audit. Furthermore, the district’s calculation of mandate-related FTE science teachers of 265.84 measured the number of FTE teachers teaching biological and life science classes during FY 1999-2000 rather than the number of FTE teachers teaching the one additional high school biological or physical science class required by the mandate.

The district did not support that the average pay rate of a science teacher exceeded the average pay rate of a non-science teacher for FY 1999-2000. The district did not claim salary and benefit costs for FY 2000-01. The reimbursable salary cost consists of positive differential cost (science teacher salary in excess of non-science teacher salary) multiplied by the number of courses taught to satisfy the second mandated science course requirement.

#### **FINDING 2— Unallowable materials, supplies, and related indirect costs**

The district did not provide documentation to substantiate the allowability of claimed materials and supplies costs totaling \$3,798,336 for FY 1999-2000 and FY 2000-01. The related indirect cost is \$175,262.

See Finding 1 for a summary of the *Parameters and Guidelines*.

For FY 1999-2000, the district applied 33% of all textbook and material costs to the mandate based on the assumption that one-third of all science classes represented the additional high school biological or physical

science classes required by the mandate program. For FY 2000-01, the district applied 1.06% (4.25% of 25%) to general materials and supplies costs and approximately 7% of library encyclopedia online service agreement expenditures to the mandate. The district did not support the costs used in the computation or that the methodologies measured the costs incurred for teaching the one additional high school biological or physical science class in FY 1999-2000 and FY 2000-01 required by the mandate.

For FY 1999-2000 and FY 2000-01, the district did not identify and offset claimed costs funded by Science Materials and District Adopted Textbooks funds. The district also did not identify or report any offsetting savings of materials and supplies costs due to reduction of non-science classes as a result of the mandate. Furthermore, the district did not support the lack of offsetting savings. Consequently, none of the claimed costs is reimbursable.

Total claimed materials, supplies, and related indirect costs are unallowable as follows:

	Fiscal Year		Total
	1999-2000	2000-01	
Materials and supplies	\$(2,537,663)	\$(1,260,673)	\$(3,798,336)
Indirect costs	<u>(122,062)</u>	<u>(53,200)</u>	<u>(175,262)</u>
Total adjustment	<u>\$(2,659,725)</u>	<u>\$(1,313,873)</u>	<u>\$(3,973,598)</u>

### Recommendation

We recommend that the district ensure that it claims only increased costs of materials and supplies net of any offsetting savings and reimbursements the district experiences as a result of this mandate.

### District's Response

The District claimed reimbursement of \$2,537,663 for 1999-2000 and \$1,260,673 for 2000-2001. The 1999-2000 claim amount was calculated based on an analysis of the District's total science materials and supplies expenditures for the school year. The analysis suggested approximately 33% of the total costs were attributable to the mandate. The District applied a similar analysis and percentage to support its 1998-1999 claim, which was accepted by the Controller without objection or reduction. Similar methodology was also used to determine the District's 2000-2001 claim amount.

The DAR concludes:

- 1) The District did not support its use of 33%, as the percentage of all textbook and materials costs attributable to the mandate for the 1999-2000 claim.
- 2) The District did not support the use of various percentages of textbook and materials costs as attributable to the mandate for the 2000-2001 claim.

The District contends these conclusions are unsupported.

For example, the District indicated that 33% of its materials and supplies costs for the 1999-2000 school year were attributable to the increased science requirement. This percentage was determined based on analysis of all the District's high school science classes. The methodology and percentage were similar to those used by the District to support prior year claims that were accepted without objection by the Controller. Now, however, the Controller contends, without any supporting evidence or explanation, that the same methodology and documentation is unacceptable.

As indicated above, the Controller has never provided any guidance as to the manner in which the District is expected or required to calculate and document its increased costs. In the absence of such guidance, the District for several years has done so using a methodology and documentation that has been accepted by the Controller without objection. In light of this history, it is wholly unacceptable for the Controller to now reject the Audited Claims outright and not set forth a methodology that would meet the Controller's requirements.

#### SCO's Comment

The finding and recommendation remain unchanged.

The district did not support that the average materials and supplies costs for a science course exceeded the average materials and supplies for a non-science course during the audit period. Reimbursable materials and supplies consist of the increased cost for a science course times the number of courses taught to satisfy the second mandated science course requirement.

Material and supply costs claimed for FY 1999-2000 and FY 2000-01 should not be allowed because past claims filed by the district were not audited by the SCO.

## **OTHER ISSUES**

The district's response also addressed the following issues. The SCO's comments immediately follow the district's response to each issue.

### **Auditing Standards and Procedures**

#### District's Response

The DAR states that the audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. With regard to the report of audit findings, section 8.13 of those standards provides:

Auditors should report findings by providing credible evidence that relates to the audit objectives. These findings should be supported by sufficient, competent, and relevant evidence. They also should be presented in a manner to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective.

The District respectfully submits that the DAR does not satisfy the guidelines of section 8.13. The DAR in essence finds that the District has not met the "reasonable assurance" standard. However, the DAR

does not provide “sufficient, competent or relevant evidence” to support such findings. Instead, the DAR findings are stated in conclusory fashion without explanation, evidence or rationale. The Controller has not provided the District with adequate notice or guidance regarding the type or level of support it must demonstrate to satisfy the Controller’s “reasonable assurance” standard. It is abundantly clear to the District that the auditors’ mission was to disallow all claimed reimbursements at the outset, rather than conduct an audit in good faith to determine whether any portion(s) of the District’s claimed reimbursements were lacking evidentiary or legal support.

#### SCO’s Comment

This audit was performed in accordance with *Government Auditing Standards*. The auditors’ mission was not to disallow all claimed reimbursements at the outset, but rather to determine whether costs claimed are increased costs incurred as a result of the mandate.

Finding 1 has been updated to show the calculation supporting unallowable costs. In that finding, the auditors discussed and documented the basis for the unallowable costs with district representatives during the audit. Furthermore, an alternative methodology in determining allowable costs for subsequent claims was discussed during the audit with district representatives.

### **Claim Guidelines and Standards**

#### District’s Response

Since the inception of this mandate, the Controller has failed or refused to provide the District with adequate guidelines regarding the manner in which increased costs should be calculated and documented. In the absence of such guidance, the District has made reasonable and good faith efforts to calculate and document its increased costs. The Controller has for years accepted without objection the District’s methodology and documentation. The Controller may not now arbitrarily reject the District’s claims while still failing to provide adequate guidance as to an acceptable methodology.

#### SCO’s Comment

*Parameters and Guidelines* establishes the criteria for allowable costs.

The auditors discussed and documented the basis for the unallowable costs with district representatives. The district did not support that it incurred increased costs as a result of the mandate.

### **Offsetting Costs**

#### District’s Response

The DAR states, “The mandate requires a district to provide the additional science course in lieu of a non-science course.” However, the report cites no authority for this proposition, and the District contends no authority exists for it.

The increased graduation requirement is the result of the enactment of Education Code section 51225.3 the language of this provision requires the District to impose an additional science class for graduation.

Nowhere in the language of the statute is there a requirement that the District reduce other programmatic offerings to students “in lieu of” the additional science class. Absent express legislative directive to reduce other program offerings, the District has discretionary authority to maintain the level of its other class offerings. (Education Code section 35160.)

Further, the parameters and guidelines issued pursuant to section 51225.3 do not require the reduction of other course offerings. The parameters provide, “Any savings the claimant experiences as a direct result of this statute must be deducted from costs claimed, e.g., reductions in non-science classes resulting from increase. . . .” This language, on its face, does not require the District to reduce other program offerings. Instead, it plainly means that if the District should experience *actual* savings, it must offset them against the increased costs. For example, a district, within its discretionary authority, may choose to reduce a non-science class offering because it has offered the additional science class. If the district does so and an actual cost savings results, then there is an offset. However, the district may, for a host of reasons, choose to offer both classes. In that instance, no actual savings results and no offset would be required. Nothing in section 51225.3 directs a district to choose between offering an additional science course and continuing an existing non-science class offering. This legal misperception by the Controller and his auditors infects the entire DAR.

The Controller may not simply read a program reduction requirement into the statute or the parameters and guidelines. The statute unquestionably contains no such requirement. The parameters and guidelines in turn derive their authority from the statute. Without express authorization in the statute, the Controller lacks authority to interpret the parameters and guidelines to impose such a requirement upon the District.

Finally, the Controller may not deny the Audited Claims in their entirety on the ground the District allegedly failed to document required offsetting savings. Even assuming *arguendo* the District is required to reduce other program offerings, then it is incumbent upon the Controller, as a component of the audit, to reasonably calculate an offset amount and reduce the Audited Claims by only that amount.

### SCO’s Comment

Finding 1 has been updated to eliminate the phrase, “The mandate requires a district to provide the additional science course in lieu of a non-science course.”

The SCO believes that if the district provided the additional science course without reducing non-science classes, it incurred the additional costs voluntarily.

Based on information provided by the district, there are no increased salary and benefit costs. Furthermore, the district did not provide the auditors with sufficient information to determine increased material and supply costs net of offsets.

**Attachment—  
District's Response to  
Draft Audit Report**

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# LOS ANGELES UNIFIED SCHOOL DISTRICT

## Office of the Chief Financial Officer

ROY ROMER  
*Superintendent of Schools*

TIMOTHY B. BURESH  
*Chief Operating Officer*



KENNETH C. GOTTSCH  
*Chief Financial Officer*

April 30, 2004

**By U.S. Mail & Fax: (916) 327-0832**

Jim L. Spano  
Chief, Compliance Audits Bureau  
State Controller's Office, Division of Audits  
P.O. Box 942850  
Sacramento, California 94250-5874

Re: Draft Audit Report Response

Dear Mr. Spano:

This letter is the Los Angeles Unified School District's ("District") response to the Controller's draft audit report ("DAR"), dated February 26, 2004, concerning the District's 1999-2000 and 2000-2001 graduation requirements mandated costs claims ("the Audited Claims").

As discussed more fully below, the District does not believe that the DAR adequately sets forth the legal or factual bases for the Controller's denial of the Audited Claims. The District has made a Public Records Act request for the Controller's working audit file to obtain more detail and understanding concerning the Controller's methodology, findings and conclusions. The District reserves the right to amend or supplement this response upon receipt and review of that file and specifically communicates hereby its intention to do so within a reasonable time after receipt and review of such file.

### **AUDIT STANDARDS AND PROCEDURES**

The DAR states that the audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States. With regard to the report of audit findings, section 8.13 of those standards provides:

Auditors should report findings by providing credible evidence that relates to the audit objectives. These findings should be supported by sufficient, competent, and relevant evidence. They also should be presented in a manner to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective.



The District respectfully submits that the DAR does not satisfy the guidelines of section 8.13. The DAR in essence finds that the District has not met the "reasonable assurance" standard. However, the DAR does not provide "sufficient, competent or relevant evidence" to support such findings. Instead, the DAR findings are stated in conclusory fashion without explanation, evidence or rationale. The Controller has not provided the District with adequate notice or guidance regarding the type or level of support it must demonstrate to satisfy the Controller's "reasonable assurance" standard. It is abundantly clear to the District that the auditors' mission was to disallow all claimed reimbursements at the outset, rather than conduct an audit in good faith to determine whether any portion(s) of the District's claimed reimbursements were lacking evidentiary or legal support.

#### **CLAIM GUIDELINES AND STANDARDS**

Since the inception of this mandate, the Controller has failed or refused to provide the District with adequate guidelines regarding the manner in which increased costs should be calculated and documented. In the absence of such guidance, the District has made reasonable and good faith efforts to calculate and document its increased costs. The Controller has for years accepted without objection the District's methodology and documentation. The Controller may not now arbitrarily reject the District's claims while still failing to provide adequate guidance as to an acceptable methodology.

#### **OFFSETTING COSTS**

The DAR states, "The mandate requires a district to provide the additional science course in lieu of a non-science course." However, the report cites no authority for this proposition, and the District contends no authority exists for it.

The increased graduation requirement is the result of the enactment of Education Code section 51225.3. The language of this provision requires the District to impose an additional science class for graduation. Nowhere in the language of the statute is there a requirement that the District reduce other programmatic offerings to students "in lieu of" the additional science class. Absent express legislative directive to reduce other program offerings, the District has discretionary authority to maintain the level of its other class offerings. (Education Code section 35160.)

Further, the parameters and guidelines issued pursuant to section 51225.3 do not require the reduction of other course offerings. The parameters provide, "Any savings the claimant experiences as a direct result of this statute must be deducted from costs claimed, e.g., reductions in non-science classes resulting from increase . . . ." This language, on its face, does not require the District to reduce other program offerings. Instead, it plainly means that if the District should experience *actual* savings, it must offset them against the increased costs. For example, a district, within its discretionary authority, may choose to reduce a non-science class offering because it has offered the additional science class. If the district does so and an actual cost savings results, then there is an offset. However, the district may, for a host of reasons, choose to offer both classes. In that instance, no actual savings results and no offset would be required. Nothing in section 51225.3 directs a district to choose between offering an additional science

course and continuing an existing non-science class offering. This legal misperception by the Controller and his auditors infects the entire DAR.

The Controller may not simply read a program reduction requirement into the statute or the parameters and guidelines. The statute unquestionably contains no such requirement. The parameters and guidelines in turn derive their authority from the statute. Without express authorization in the statute, the Controller lacks authority to interpret the parameters and guidelines to impose such a requirement upon the District.

Finally, the Controller may not deny the Audited Claims in their entirety on the ground the District allegedly failed to document required offsetting savings. Even assuming *arguendo* the District is required to reduce other program offerings, then it is incumbent upon the Controller, as a component of the audit, to reasonably calculate an offset amount and reduce the Audited Claims by only that amount.

#### **AUDIT FINDINGS AND CONCLUSION**

##### ***Finding 1: Increased Salaries and Benefits***

For 1999-2000, the District claimed reimbursement of \$1,705,098. The District did not submit a salaries and benefits claim for 2000-2001. To determine the increased costs for 1999-2000, the District calculated the differential between the average salary and benefits for a science teacher and the average salary and benefits for teachers districtwide. The District then determined, by analysis of class assignments per school, the FTE teaching mandated science classes. The claim amount is the product of the differential and the FTE figures.

The DAR contains the following conclusions:

- 1) the formula applied by the District in calculating the increased salaries and benefits was incorrect.
- 2) even with correction to the District's formula, the District failed to establish the increased costs attributable to the mandate imposed by section 51225.3.

The District submits these conclusions are wholly unsupported.

With regard to the District's formula, the numerator of the District's and Controller's formulas are identical. The only potential difference is the denominator. The Controller states the District used "the number of FTE science teachers teaching science classes" as the denominator. The Controller states the denominator should have been "the actual number of science teachers teaching science classes." The DAR, however, does not explain why the District's calculation is incorrect. Further, the DAR does not explain why the District's calculation is not sufficient to provide the Controller with "reasonable assurance" as to the validity of the District's claims.

The DAR then concludes, "the calculation did not measure the costs incurred for teaching the one additional high school biological or physical science class for FY 1999-2000 required by the mandate." However, the support submitted with the District's initial claim includes a calculation



of the "Differential x FTE teaching mandated second year of high school science." This calculation is supported with several pages of documentation and is indeed a "measure" of the cost incurred from teaching the additional science class. The Controller makes no attempt to explain or demonstrate how the District's calculation and supporting documentation is incorrect or insufficient. Further, as is required by the Governmental Auditing Standards, the Controller provides no evidence to support its conclusory finding.

Finally, the DAR states, "The SCO recomputed the salaries and benefits differential based on information provided by the district. The average science teacher salaries and benefits were lower than the district-wide teacher salaries and benefits." The DAR, however, does not provide any information regarding how the Controller recomputed this figure or the District information upon which that recalculation was based. Assuming arguendo that the Controller's position on such recalculation had some merit, the District would be unable to reconfigure and recompute the salary and benefits differential so as to comply with the auditors' methodology because the necessary information to permit same is entirely lacking.

***Finding 2: Increased Materials and Supplies***

The District claimed reimbursement of \$2,537,663 for 1999-2000 and \$1,260,673 for 2000-2001. The 1999-2000 claim amount was calculated based on an analysis of the District's total science materials and supplies expenditures for the school year. The analysis suggested approximately 33% of the total costs were attributable to the mandate. The District applied a similar analysis and percentage to support its 1998-1999 claim, which was accepted by the Controller without objection or reduction. Similar methodology was also used to determine the District's 2000-2001 claim amount.

The DAR concludes:

- 1) The District did not support its use of 33%, as the percentage of all textbook and materials costs attributable to the mandate for the 1999-2000 claim.
- 2) The District did not support the use of various percentages of textbook and materials costs as attributable to the mandate for the 2000-2001 claim.

The District contends these conclusions are unsupported.

For example, the District indicated that 33% of its materials and supplies costs for the 1999-2000 school year were attributable to the increased science requirement. This percentage was determined based on analysis of all the District's high school science classes. The methodology and percentage were similar to those used by the District to support prior year claims that were accepted without objection by the Controller. Now, however, the Controller contends, without any supporting evidence or explanation, that the same methodology and documentation is unacceptable.

As indicated above, the Controller has never provided any guidance as to the manner in which the District is expected or required to calculate and document its increased costs. In the absence of such guidance, the District for several years has done so using a methodology and

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documentation that has been accepted by the Controller without objection. In light of this history, it is wholly unacceptable for the Controller to now reject the Audited Claims outright and not set forth a methodology that would meet the Controller's requirements.

#### **CONCLUSION**

The District believes and asserts that the documentation submitted with the original claims, in addition to any subsequent material provided to the Controller during the audit, establishes the legitimacy of the District's claims. Unfortunately, the Controller has not set forth sufficient standards or guidelines by which the District may determine the level of support it must demonstrate to establish its claim to the Controller's satisfaction. This flies in the face of the Controllers' past approvals of District reimbursement claims premised on virtually the same quality and quantity of supporting documentation that is now being questioned. It is simply untenable for the Controller to support the complete denial of the District's reimbursement claims with conclusory statements regarding the inadequacy of the District's methodology and documentary support, and without the Controller presenting analysis and evidence sufficient to explain the audit determinations.

Sincerely,

A handwritten signature in blue ink, appearing to read "Kenneth C. Gotsch".

Kenneth C. Gotsch  
Chief Financial Officer

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